



# The Advisor

for our Active members

A semi-annual publication of the Massachusetts Teachers' Retirement System as a service to its members

Fall 2006

KNOW WHAT YOU NEED TO DO—AND WHEN

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## If you're retiring within the next year, please come to our *Ready for Retirement* program!

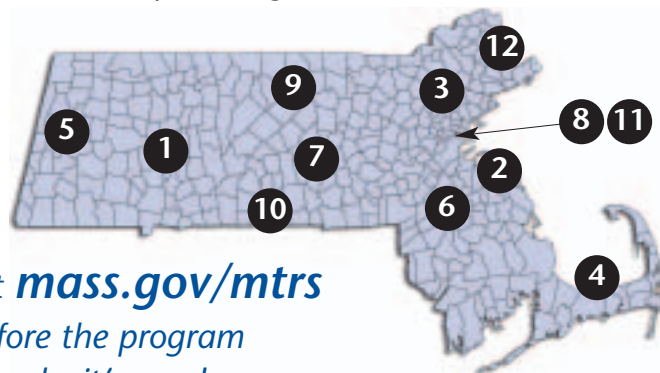
*Ready for Retirement* is an optional, free, two-hour program (4–6 p.m.) for members retiring in 2007. We're going on the road to reach out to our soon-to-be retirees because we anticipate a substantial increase in the number of retirements this season, and this seminar will give you the best opportunity to meet the MTRS staff and learn about the most recent changes that may affect your retirement. (Be sure to review and use the *Retirement Checklist* on page 3, too!)

At *Ready for Retirement*, you will learn about:

- estimating your retirement benefits under the regular and RetirementPlus formulas;
- purchasing creditable service;
- completing and submitting your application for retirement;
- various issues you need to consider in retirement, such as health insurance coverage, taxation of your retirement benefit, Social Security—and more!

### Upcoming *Ready for Retirement* seminar locations and dates—

- 1 **Holyoke**, Thursday, November 9, Holyoke High School
- 2 **Weymouth**, Monday, November 13, Chapman Middle School
- 3 **Medford**, Wednesday, November 15, McGlynn School
- 4 **Barnstable**, Thursday, November 16, Barnstable High School
- 5 **Lee**, Monday, November 20, Lee High School
- 6 **Taunton**, Monday, November 20, Taunton High School
- 7 **Shrewsbury**, Tuesday, November 28, Shrewsbury High School
- 8 **Cambridge**, Thursday, November 30, MTRS Cambridge office
- 9 **Gardner**, Thursday, November 30, Gardner High School
- 10 **Sturbridge**, Monday, December 4, Tantasqua High School
- 11 **Cambridge**, Tuesday, December 5, MTRS Cambridge office
- 12 **Ipswich**, Thursday, December 7, Ipswich High School



Simply

**register online at [mass.gov/mtrs](http://mass.gov/mtrs)**

at least a week before the program  
you wish to attend—it's easy!



Dr. David P. Driscoll  
Commissioner of Education  
and Chairman,  
Massachusetts Teachers'  
Retirement Board

## FROM THE CHAIRMAN

# Board continues to advocate for COLA base increase, fair contribution rates

**T**he Board's legislative agenda for the current year continues to include advocating for an increase in the cost-of-living adjustment (COLA) base, while securing the purchasing power protection of our retired members and establishing an employee pension contribution rate that is reflective of the retirement benefits earned by our members.

First, as anticipated, progress on COLA reform continues to be slow. However, we were pleased that the Joint Committee on Public Service reported favorably a bill increasing the COLA base from \$12,000 to \$16,000. Although we do not expect any further action on the Committee's proposal this year, we are hopeful that the Committee's recommendation will be acted on early in the next legislative session. In addition to supporting an increase in the COLA base, the Board continues to advocate for a long-term strategy to protect our retirees' benefits from the effects of inflation.

Second, our legislation to reduce employee contribution rates was referred to a legislative study. However, a recent report on the Massachusetts Public Employees' Pension Classification System by a Blue Ribbon Panel confirmed our view, stating, "As a result of the substantial contribution rates, most Massachusetts public employees end up paying for the bulk of their pension benefits...." We are certainly buoyed by the

report's findings, and will continue to advocate for an appropriate and proportionate employee/employer pension contribution rate.

Finally, in addition to these top priorities, the Board is also exploring options that would allow retired educators an opportunity to return to the classroom. Over the last three years, we have retired nearly 12,000 educators who had an average of 30 years' teaching experience apiece. As our "Boomers" enter retirement, the Board is interested in providing opportunities that would allow school districts and our retired educators the flexibility of returning to the classroom to help mentor, job share, train and, in some cases, fill positions where a critical shortage or critical need has been designated. We view this as a unique opportunity for us not only to help a life-long educator transition to full retirement, but also to create opportunities for school districts to leverage seasoned educators' experience and skills in order to provide assistance to new teachers via innovative programs.

Best wishes,

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Stay up to date on retirement issues—

**Have retirement updates delivered right to your desktop when you register to receive MTRS M@il!**

Just give us your e-mail address and you'll get advance notice of upcoming seminars, important announcements and retirement news delivered right to your desktop. It's easy!

- 1) Go to [mass.gov/mtrs](http://mass.gov/mtrs).
- 2) Click on **MTRS M@il** in the left margin.
- 3) Complete the simple online form with your MTRS member status (active), name, MTRS member number (as shown on your Annual Statement) and your e-mail address.
- 4) Watch your e-mail for periodic updates!

New e-mail address? No problem—just send your old and new addresses to us at [geninfo@trb.state.ma.us](mailto:geninfo@trb.state.ma.us) and we'll update our records so that you don't miss any updates!

# Planning to retire this year?

*Don't wait until the last minute—use our checklist so you'll be ready*

Last year's class of 4,300 retiring educators was a record-setting season for our agency—and we anticipate to break that record next summer. If you are among the nearly 4,800 members expected to retire in 2007, please follow this checklist of actions you need to take to help ensure a smooth transition to retirement.



## Your retirement process checklist

When (in relation to your date of retirement)	Action
<input type="checkbox"/> 8-10 months before	<b>CONTACT</b> your local health insurance coordinator to confirm the health insurance coverage for which you will qualify as a retiree ( <i>see back page</i> ). If you cover a spouse or other dependent, be sure to ask about dependent coverage while you are retired <i>and</i> in the event of your death.
<input type="checkbox"/> 7-8 months before	<b>GO</b> to our website at <a href="http://mass.gov/mtrs">mass.gov/mtrs</a> , and select <a href="#">Members &gt; Active members &gt; Creditable service</a> . Review all of the types of service listed and apply to purchase any that apply to you and for which you have not yet established credit.
<input type="checkbox"/> 6 months before	<b>GO</b> to our website at <a href="http://mass.gov/mtrs">mass.gov/mtrs</a> , and select <a href="#">Members &gt; Active members &gt; Retiring from the MTRS &gt; Regular ("superannuation") retirement</a> . Carefully review all of the information, complete your online benefit estimate, and print your retirement application.
<input type="checkbox"/> 5 months before	<b>COMPLETE</b> Part 1 of the application* and ask your payroll official to complete Part 2.  <b>GATHER</b> all necessary documents listed on the application cover sheet.
<input type="checkbox"/> 4 months before	<b>RECEIVE</b> Part 2 from your payroll official and <b>MAIL</b> the complete application and all attachments to the MTRS.
<input type="checkbox"/> 2 months before	<b>Be sure to have COMPLETED all service purchases.</b> Full payment must be received <b>before</b> your date of retirement.

**Questions? Come to one of our fall seminars—**

*See page 1 for details!*

*Retirement is a major life change, and often an emotional and confusing time.*

*Prepare now, so that the process is less stressful.*

\*As you will see, on the application, you are asked to list all of your creditable service and provide your "best estimate" of your total number of years.

**Please note that it is NOT necessary for you to request a "creditable service letter" from the MTRS in order to complete your application.** When we process your application, we will determine your exact amount of creditable service and notify you of the total before your benefit is finalized.



# Our Massachusetts Teachers' Retirement System

## A snapshot of who we are, retirement t

A profile of our membership as of January 1, 2006

### Some statistics of note—

#### ACTIVE MEMBERS

- Average **salary** . . . \$54,279
- Average **age** . . . 44.6 years
- Average **service** . . 13.9 years
- Total member compensation . . \$4.8 billion
- Employee contributions . . \$462 million

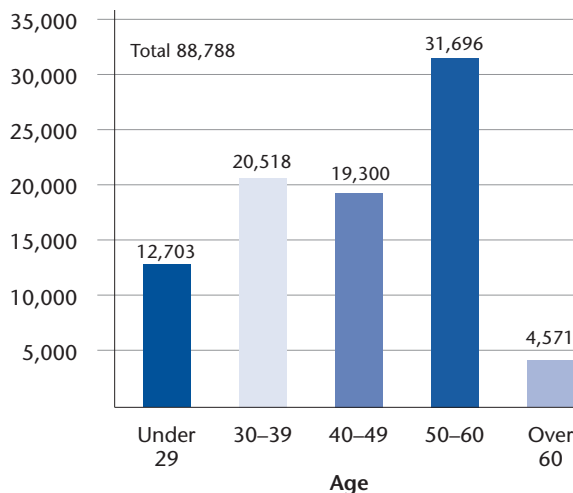
#### RETIRED MEMBERS

- Average **annual benefit**. . . \$30,842
- Average **age** . . . 69.8 years
- Total benefits paid . . \$1.37 billion

#### PLAN FUNDING

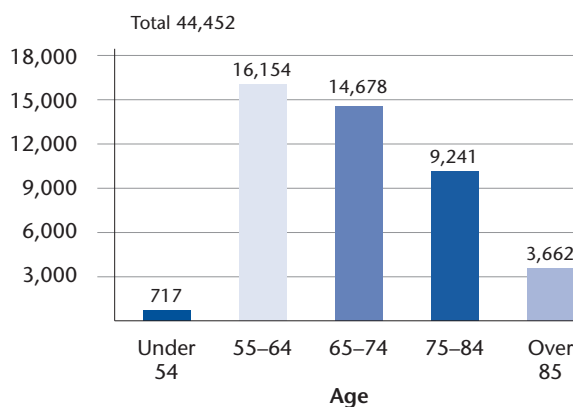
- Percent **funded** . . . . 67.2%
- **Unfunded liability** . . . . . \$9.1 billion
- Year **fully funded** . . . . 2023

Source: 2006 Actuarial Valuation, Massachusetts Teachers' Retirement System



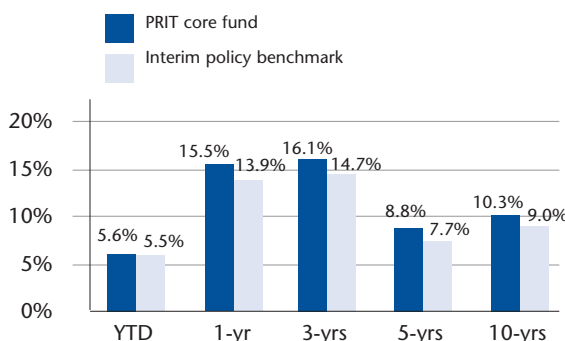
### Our active members, by age

The baby boomers are here—and retiring in record numbers.



### Our retired members, by age

This population has never been greater, with the number of older retirees continuing to grow.



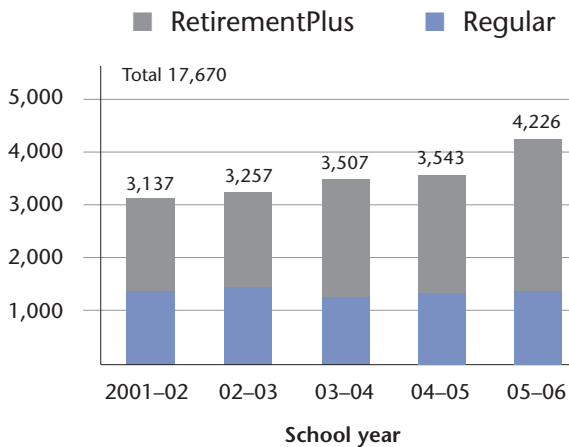
### Core performance comparison

The Legislature has set 8.25 percent as the pension fund's long-term rate of return target. The system has averaged 10.3 percent over the past 10 years, and **11.06 percent** since its inception in January 1985.

# Teachers' Retirement System

## Trends and our current funding status

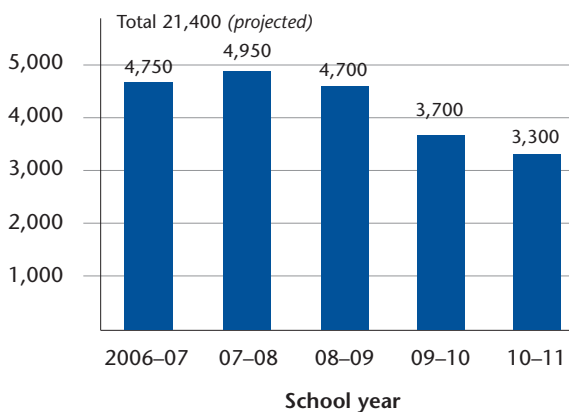
Recent and projected retirement statistics, and our funding status



RetirementPlus and regular retirements—

### The last five years...

In the last five years, nearly 18,000 members retired under the regular and RetirementPlus plans.

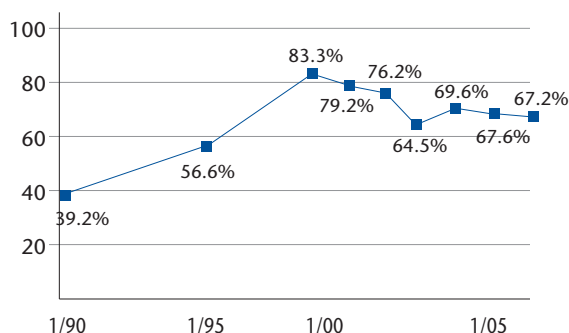


### ...and the next five years

In the next five years, we project that approximately 21,400 members will retire—an increase of 19 percent over the last five years.

The asset allocation of the \$41.9 billion Pension Reserves Investment Trust (PRIT) Fund (State and Teachers' Retirement Systems assets) as of June 30, 2006:

- Domestic equities . 27.5%
- International equities . . . . . 19.8%
- Emerging markets . . 5.9%
- Fixed income . . . . 10.3%
- High yield debt . . . . 5.3%
- Real estate. . . . . 11.0%
- Timber . . . . . 3.5%
- Alternative investments. . . . . 6.5%



### The MTRS's funded ratio

Over the last 16 years, the system's funding ratio has increased significantly.

To learn more about how the System's assets are invested, visit [www.mapension.com](http://www.mapension.com).





## 2006 in review

# A year of great change for the MTRS

*The MTRS Advisor* is written and produced by the Massachusetts Teachers' Retirement System. We welcome letters from our readers and encourage you to send your comments to:

*Advisor*

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Or e-mail your comments to us at [geninfo@trb.state.ma.us](mailto:geninfo@trb.state.ma.us).

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[mass.gov/mtrs](http://mass.gov/mtrs)



**T**his has been a year of change for the Massachusetts Teachers' Retirement System. We relocated our Boston office to Cambridge and were able to accomplish it with little or no interruption in serving our members. The staff started the move on the evening of Thursday, May 11, as the rain continued to pour relentlessly. By working throughout the weekend, we were able to be operational that following Monday. So far, the response we have received from members who have visited our new office space has been uniformly positive. And we are happy to report that the space will allow us to continue our modernization efforts. In conjunction with the move to Cambridge, we also launched our new logo signifying the change in our identity from the Massachusetts Teachers' Retirement Board to the Massachusetts Teachers' Retirement System to reflect that we are a large group of active and retired members, employer representatives and our staff.

As predicted, 2006 brought an unprecedented number of retirements, the largest in the MTRS's 92-year history. As of September 30, 2006, we have retired 4,226 educators and 94 percent of the members who filed on time with a June 30th retirement date received their first check by September. The pension fund now pays out a total of \$1.133 billion in benefits to approximately 47,000 retirees on an annual basis. If you are planning to retire next year, please refer to the *Checklist* provided on page 3 of this newsletter so you know what to do—and expect—and when.

We have also continued our educational initiatives to reach out to members by scheduling seminars throughout the Commonwealth. During this past year we provided guidance to over 4,000 members who

have attended our seminars. Our website also saw a great deal of activity. Members are utilizing the information provided along with the accessibility of downloading forms, registering for seminars and asking questions via e-mail. Members receive a timely response to questions posed on our website.

The Board continues to focus its attention and commitment to providing outstanding service to the membership.

They remain committed to providing accurate, timely and prompt delivery of all our services to our valued educators and retirees. ■

*The Board remains committed to providing accurate, timely and prompt services to our valued educators and retirees.*



In May, our main office moved to the second floor of One Charles Park in East Cambridge, right next to the CambridgeSide Galleria. We are very pleased with our new space, which provides a comfortable first-floor amphitheater for educational programs, 24/7 security and housing for all of our member files.

For directions to our Cambridge and Springfield offices, please visit our website at [mass.gov/mtrs](http://mass.gov/mtrs) and click on Contact us.

# Defined Benefit plans:

## A history of serving the public good

**D**efined benefit plans—such as your MTRS retirement plan—have recently become a popular topic of discussion for news media, think tanks and elected officials. When looking at the issue of **defined benefit** plans versus **defined contribution** plans (*see box at right*), it is important to keep in mind the facts about defined benefit plans in the public sector.

### 1) The bulk of public pension benefit funding is NOT shouldered by taxpayers.

Employer (taxpayer) contributions to state and local pension systems over the last two decades have made up only one-fourth of total public pensions revenue. Earnings from investments and employee contributions comprise the remainder. This ratio has improved over time. In 2004, investment earnings accounted for 77 percent of all public pension revenue; employer contributions were 15 percent. Unlike corporate workers, most public employees are required to contribute to their pension plans.

### 2) Public retirement plans attract and retain the workforce that provides essential public services.

There are more than 20 million working and retired state and local government employees in the United States. Retired public employees live in virtually every city and town in the nation (90 percent stay in the same jurisdiction where they worked). Active public employees comprise more than 10 percent of the nation's workforce, and two-thirds are employed in education, public safety, corrections, or judiciary. Retention of experienced and trained personnel in these and other positions is critical to the continuous and reliable delivery of public services.

### 3) State and local pension plans are an integral component of national, state and local economies.

Public Plans distribute more than \$130 billion annually (an amount greater than the total economic output of 22 states) in benefits to over 6 million retirees, disability recipients and beneficiaries with an average annual pension benefit of roughly \$19,500. These payments are steady and continuous and provide a strong economic stimulus to local economies throughout the nation. A 2004 study for the Wharton School Pension Research Council found state and local government pension distributions contribute 2.0 percent more to GDP over (\$200 billion) than if they had been invested in self-directed 401(k)-type retirement accounts.

### 4) State and local plans are subject to comprehensive oversight.

## Know your MTRS benefits

Your MTRS benefits are very important to your financial future—the MTRS is your retirement plan. **During your retirement, your MTRS pension may be your greatest financial asset.** The plan provides the following types of benefits to eligible members:

- ✓ **Regular “service” retirement benefits**
- ✓ **Disability retirement benefits** (ordinary and accidental)
- ✓ **Survivor and accidental death benefits** (if you die while you are an active member)

Under the MTRS “**defined benefit**” plan, your retirement benefit is determined according to a set formula, and **the amount is guaranteed** regardless of fluctuations in the pension fund's performance. Likewise, **your benefit amount is guaranteed for your lifetime**, and cannot be adjusted downward.

In contrast, a “**defined contribution**” plan is dependent on the contributions made by the employee, and possibly by the employer, and the growth of those assets over time as they are invested in the financial markets. A defined contribution plan is very susceptible to fluctuations in the market; nothing is guaranteed.

While private sector plans are subject solely to federal regulation, state and local government plans are creatures of state constitutional, statutory and case law and must comply with a vast landscape of state and local requirements, as well as industry accounting standards. These plans are accountable to the legislative and executive branches of the state; independent boards of trustees that include employee representatives and/or ex-officio publicly elected officials; and ultimately, the taxpaying public.

### 5) Public pension plans are in good financial condition.

As a group, state and local pension systems have nearly 90 cents for each dollar they owe in liabilities. These assets are professionally managed and invested on a long-term basis using sound investment policies.

### 6) State and local pension funds earn competitive investment returns.

For the 3- and 10-year periods ended June 30, 2005, public pension funds generated strong investment returns of 9.67 percent and 9.15 percent, closely tracking returns generated by corporate pension plans.



## What's new!

### Retiring within a year? Be sure to come to *Ready for Retirement!* 1

*Get the nuts-and-bolts retirement  
information you need, directly  
from the source—simply register online!*

### Our system: A snapshot 4–5

*A profile of who we are, retirement  
statistics and our funding status*

### The facts about Defined Benefit plans 7

*Defined Benefit plans have  
long been serving the public good*

*Plus the year in review,  
a retirement checklist and more!*



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## Member Q&A

### Q What happens with my health insurance when I retire?

A Most school districts offer continued health insurance to their retirees and, generally, one of two things happens with your coverage—either:

- 1) your individual city or town continues to provide your health insurance, or
- 2) if your city or town participates in the Retired Municipal Teachers' (RMT) program, the Group Insurance Commission (GIC, the Commonwealth's state-run health insurance program), begins to administer your coverage.

Depending on which entity administers your health insurance in retirement, please be aware that **there may be differences between your coverage while you are an active teacher**—and receiving health insurance benefits through your city or town—and **your coverage during retirement**, when you are receiving health insurance benefits through your city, town or the GIC. As noted in the *Retirement Checklist* on page 3, we recommend that you investigate your health insurance benefits **at least eight to ten months before**

**Take note:** When you retire, your health insurance coverage and premiums may be **different** from your coverage and costs as an active teacher. Don't be surprised—be sure to find out about any differences **BEFORE** you retire!



**you retire** to ensure that you are aware of, and understand, any differences between your current coverage and your coverage as a retiree.

For a list of districts participating in the RMT program, and more information on health insurance in retirement, please visit our website at [mass.gov/mtrs/2members/22retiree/22health.htm](http://mass.gov/mtrs/2members/22retiree/22health.htm).

*Please note: The MTRS does **not** administer your health insurance benefits. While we may deduct your health insurance premiums from your monthly retirement benefit payment and forward them to either the GIC or your city or town treasurer, that bookkeeping function is our only involvement.*